(2)

Supreme Court, U.S.
FILED
OCT 7 1996
CLERK

No. 96-333

In The

Supreme Court of the United States

October Term, 1996

SIMPLY FRESH FRUIT, INC. & P&C SERVICES, INC.,

Petitioners,

v.

THE CONTINENTAL INSURANCE COMPANY,

Respondent.

On Petition For Writ Of Certiorari To The Court Of Appeals For The Ninth Circuit

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

JAMES H. WILKINS
McCORMICK, BARSTOW, SHEPPARD, WAYTE & CARRUTH
5 River Park Place East
Fresno, California 93729-8912
Telephone: (209) 433-1300

Attorneys for Respondent

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964
OR CALL COLLECT (402) 342-2831

28pp

TABLE OF CONTENTS

Page

REASONS FOR DENYING THE PETITION FOR WRIT OF CERTIORARI 1

ARGUMENT 1

1. The Decision Of The Ninth Circuit Does Not Conflict With The Decision Of Any Other Circuit Court Of Appeals In Holding That Patent Infringement Is Not Covered Under A Liability Insurance Policy 1

2. Even If Such A Conflict Existed, Which It Does Not, Patent Infringement Does Not Occur "In The Course Of" Advertising 7

3. Petitioner's Arguments Concerning Trade Dress Infringement And Allegations Of Violations Of The Lanham Act Are Irrelevant To This Action 10

4. The Decision Of The Ninth Circuit Does Not Conflict With State Or Federal Decisions Or Statutory Law In Holding That Misappropriation Of Trade Secrets Is Not Covered Under A Liability Insurance Policy 13

CONCLUSION 17

TABLE OF AUTHORITIES

Page

CASES

Atlantic Mutual Ins. Co. v. Brotech Corp., 857 F.Supp. 423 (E.D. Pa. 1994), *aff'd*, 60 F.3d 813 (3rd Cir. 1994) 8

Bank of the West v. Superior Court, 2 Cal.4th 1254 (1992) 2, 13, 14, 15

Bohannon v. Aetna Casualty and Surety Co., 166 Cal.App.3d 1172 (1985) 10

Bradshaw v. Igloo Products Corp., 912 F.Supp. 1088 (N.D. Ill. 1996) 4

Dogloo v. Northern Ins. Co. of New York, 907 F.Supp. 1383 (C.D. Cal. 1995) 13, 14

Everest & Jennings v. American Motorists Ins. Co., 23 F.3d 226 (9th Cir. 1994) 9, 14

Hurley Construction Co. v. State Farm Fire & Casualty Co., 10 Cal.App.4th 533 (1992) 10

I.C.D. Industries, Inc. v. Federal Insurance Co., 879 F.Supp. 480 (E.D. Pa. 1995) 8

Intermedics, Inc. v. Ventritex, Inc., 775 F.Supp. 1269 (N.D. Cal. 1991) 3, 4, 5

Intex Plastics Sales Co. v. United National Ins. Co., 23 F.3d 254 (9th Cir. 1994) 9

Iolab Corp. v. Seaboard Surety Co., 15 F.3d 1500 (9th Cir. 1994) 8, 14

Kaz Manufacturing Co., Inc. v. Cheseborough-Ponds, Inc., 317 F.2d 679 (2nd Cir. 1963) 3

Knapp-Monarch Co. v. Cass Co. Products Corp., 342 F.2d 622 (7th Cir. 1965) 7

TABLE OF AUTHORITIES – Continued

Page

L.A. Gear, Inc. v. E.S. Originals, Inc., 859 F.Supp. 1294 (C.D. Cal. 1994) 3, 4, 5

Lassen Canyon Nursery v. Royal Ins. Co. of America, 720 F.2d 1016 (9th Cir. 1983) 11

Ling-Temco-Vought, Inc. v. Kollsman Instrument Corp., 372 F.2d 263 (2nd Cir. 1967) 7, 8, 9

Merry Manufacturing Co. v. Burns Tool Company, 206 F.Supp. 53 (N.D. Ga. 1962), *aff'd*, 335 F.2d 239 (5th Cir. 1964) 7

Microtec Research v. Nationwide Mutual Ins. Co., 40 F.3d 968 (9th Cir. 1994) 9, 15

National Union Fire Ins. Co. v. Siliconix, Inc., 726 F.Supp. 264 (N.D. Cal. 1989) 12

National Union Fire Ins. Co. v. Siliconix Inc., 729 F.Supp. 77 (N.D. Cal. 1989) 8

Neff Instrument Corp. v. Cohu Electronics, Inc., 269 F.2d 668 (9th Cir. 1959) 4

New Hampshire Ins. Co. v. R.L. Chaides Constr. Co., 847 F.Supp. 1452, (N.D. Cal. 1994) 6, 9

Olympic Club v. Those Interested Underwriters at Lloyds London, 991 F.2d 497 (9th Cir. 1993) 11

Owens-Brockway Glass Container, Inc. v. International Ins. Co., 884 F.Supp. 363 (E.D. Cal. 1995) 9

Pitcarin v. United States, 547 F.2d 1106 (Ct. Cl. 1976), *cert. denied*, 434 U.S. 1051 (1978) 5

Polaris Industries, L.P. v. Continental Ins. Co., 539 N.W.2d 619 (Minn. App. 1995), *rev. denied*, (1996) 14

TABLE OF AUTHORITIES – Continued

Page

Roche Products, Inc. v. Bolar Pharmaceutical Co., 733 F.2d 858 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 856 (1984) 4

Rymal v. Woodcock, 896 F.Supp. 637 (W.D. La. 1995) 15

Select Design, LTD. v. Union Mutual Fire Ins. Co., 674 A.2d 798 (Vt. 1996) 14

Sentex Systems, Inc. v. Hartford Accident & Indemnity Co., 882 F.Supp. 930 (C.D. Cal. 1995), *aff'd*, 93 F.3d 578 (9th Cir. 1996) 15, 16

Simply Fresh Fruit, Inc. v. Continental Ins. Co., 84 F.3d 1105 (9th Cir. 1996) 9

Union Asbestos & Rubber Co. v. Evans Products Co., 328 F.2d 949 (7th Cir. 1964) 5, 6

Walbrook Ins. Co. Ltd. v. Goshgarian and Goshgarian, 726 F.Supp. 777 (C.D. Cal. 1989) 10

STATUTES

28 U.S.C. § 1400(b) 3

35 U.S.C. § 271(a) 2, 4

REASONS FOR DENYING THE PETITION FOR WRIT OF CERTIORARI

There are no compelling reasons to grant the present writ. This case does not involve (1) a conflict of Appellate decisions; (2) an important question of federal law; or (3) an important question of law that conflicts with the decisions of this Court. (Sup. Ct. R. 10) Therefore, the petition should be denied.

The controversy in this matter involves the interpretation of an insurance policy, *under California law*. The Ninth Circuit's decision does not conflict with any decision of this court, or any other circuit court of appeals. The Ninth Circuit's decision does not raise an important federal question in a manner conflicting with a decision of another state court of last resort or of the United States Court of Appeal. The decision does not conflict with prior Supreme Court decisions or federal constitutional or statutory provisions relating to patent infringement or the Lanham Act.

ARGUMENT

1. The Decision Of The Ninth Circuit Does Not Conflict With The Decision Of Any Other Circuit Court Of Appeals In Holding That Patent Infringement Is Not Covered Under A Liability Insurance Policy.

The present matter involves the interpretation of general liability insurance policies, issued to a California insured by respondent Continental Insurance Company. It is undisputed that this interpretation is governed by California law. In order for coverage to apply under the

Continental policies, the allegations in the complaint must concern an injury arising out of an offense occurring "in the course of" the insured's advertising activities. (See App. A attached to Petition for Writ of Certiorari, p. A-3) The California Supreme Court has interpreted this language as limiting coverage to situations where the alleged covered injury is causally connected to the insureds' actual advertising activities. (*Bank of the West v. Superior Court*, 2 Cal.4th 1254 (1992))

Petitioners assert that allegations of patent infringement under 35 U.S.C. § 271(a) satisfy the "in the course of" requirement because "use" can be broadly defined to include advertising.[1] The Ninth Circuit rejected Petitioner's argument and held that as a matter of California insurance coverage law, patent infringement cannot occur in the course of advertising activities. (See App. A. attached to Petition for Writ of Certiorari, p. A-10) Petitioners argue that this holding is in direct conflict with prior Supreme Court and Federal Circuit decisions concerning what constitutes "use" under the patent statute, as well as the intent of the statute itself. However, petitioners misconstrue such authorities.

---

[1] The applicable patent infringement statute, 35 U.S.C. § 271(a) for the purposes of this case provides:

> [W]hoever without authority makes, uses or sells any patent invention, within the United States during the term of the patent therefore, infringes the patent.

Although this statute has subsequently been amended effective January 1, 1996, the amendment is irrelevant for the purposes of construing coverage under the Continental policies as those policies were in effect prior to January 1, 1996.

As one court has stated, "the use of a patented product for the purpose of advertising defendant's product is not a[n] . . . act of infringement." *Intermedics, Inc. v. Ventritex, Inc.*, 775 F.Supp. 1269, 1285 (N.D. Cal. 1991), citing *Kaz Manufacturing Co., Inc. v. Cheseborough-Ponds, Inc.*, 317 F.2d 679 (2nd Cir. 1963). In *Intermedics*, plaintiffs sought to establish that the defendant's demonstrations of a patented implanted defibrillator at scientific trade shows would constitute acts of infringement. The court noted that many cases which found such activity to constitute infringement did so for the purpose of establishing proper venue under 28 U.S.C. Section 1400(b), which carries a necessarily lower standard of proof. *Intermedics*, 775 F.Supp at 1285. Moreover, in order to show infringement arising out of a demonstration of a patented product, the aggrieved party must also show "some other activity *culminating in a sale* of that device." *Id.*; emphasis in original. In *Intermedics*, the court found no evidence that the defendant sold any units of the infringing device; in fact, the defendant erected signs indicating that the device was not available for general commercial sale. Nor was there any evidence that the defendant solicited sales agreements arising out of its demonstrations. The court concluded: "The mere demonstration or display of an accused product, even in an obviously commercial atmosphere, does not constitute an infringing use under Section 271(a)." *Id.* at 1286.

Similarly, the court in *L.A. Gear, Inc. v. E.S. Originals, Inc.*, 859 F.Supp. 1294, 1298 (C.D. Cal. 1994) held that the defendant's observation, handling and inspection of allegedly infringing shoes in retail stores did not constitute patent infringement. The court held that "[a]s a

matter of law, merely observing an allegedly infringing device, demonstrating that device, or observing a demonstration of that device does not constitute a 'use' of that device." *Id.*

The *L.A. Gear* court directly addressed the fact that the term "use" has never been taken "to its utmost possible scope." *Id.*, quoting *Roche Products, Inc. v. Bolar Pharmaceutical Co.*, 733 F.2d 858, 861 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 856 (1984). Citing the *Intermedics* case with approval, the court held that if demonstration or observation of the demonstration were held to be patent infringement, "[a] patentee could bring a patent infringement action based on 'use' against every individual who visited or happened to observe a demonstration or exhibit in a museum, store, or any other public place where an allegedly infringing product or process was displayed." *Id.* at 1298-1299.

In *Bradshaw v. Igloo Products Corp.*, 912 F.Supp. 1088, 1101 (N.D. Ill. 1996), the alleged infringer showed the patented cooler live or as a photograph in a large number of marketing presentations. The defendant actually sold non-infringing models, however. In finding no infringement of the patent, the court held: "[s]ince use of a patented product for promotional purposes is not itself a "use" violating § 271(a) and since there was no "sale" of the potentially infringing product, there is no violation of § 271(a)."

Petitioner's citation of *Neff Instrument Corp. v. Cohu Electronics, Inc.*, 269 F.2d 668, 674 (9th Cir. 1959) as an example of a broad interpretation of the term "use" is inapposite. The court took note of the alleged infringer's

solicitations for sales at product conventions as a perceived threat to " *'manufacture'* and *'sell'* infringing machines." *Id.*; emphasis added. Indeed, rather than "use," courts regard demonstrations using patented products as a possible "sale" of the product. See *Union Asbestos & Rubber Co. v. Evans Products Co.*, 328 F.2d 949, 952 (7th Cir. 1964) [" . . . demonstrations are proper proof of 'sale' and not proper proof of 'use' because in them the accused article was not used for the purpose for which it was intended. Its intended use was . . . not for demonstration to intended customers."]

Moreover, the *L.A. Gear* court quoted the *Intermedics* court's citation of *Union Asbestos & Rubber Co., supra,* for the proposition that the demonstration of a device to prove the occurrence of a "sale" is to be distinguished from using demonstration to prove a "use." As the *Intermedics* court stated, "[c]ommon sense suggests that demonstration activity should be considered as evidence of an infringing 'sale' and not as evidence of an infringing 'use.' " *Intermedics*, 775 F.Supp. at 1286 n.5, *quoted by L.A. Gear*, 859 F.Supp. at 1298, n.2.

Petitioner's citation of *Pitcarin v. United States*, 547 F.2d 1106, 1125 (Ct. Cl. 1976), *cert. denied*, 434 U.S. 1051 (1978), does not advance petitioner's argument. That case does not stand for the proposition that a "demonstration" is necessarily an infringing use. *Pitcarin* involved the alleged infringement of patents by the U.S. government relating to helicopter rotor structures and control systems. A phrase Petitioner omitted from its quotation clarifies that the "[t]ests, demonstrations, and experiments" are "*intended uses* of the infringing aircraft . . . " *Pitcarin*, 547 F.2d 1125; emphasis added.

In this case, the allegedly infringed product's intended use was to process fruit, not to demonstrate the product. See *Union Asbestos & Rubber Co.*, 328 F.2d at 952. Nor was there any commercial sales opportunity sought or taken with respect to the allegedly infringing product. Therefore, no patent infringement occurred. Thus, the demonstration of a patented product, without commercial sale of the product occurring as a result of the demonstration, does not constitute patent infringement.

Petitioner's plea to this Court to allow advertising to serve as a new basis for patent infringement is without legal foundation. "Only the unauthorized making, using or selling of a patented invention constitutes infringement." *New Hampshire Ins. Co. v. R.L. Chaides Constr. Co.*, 847 F.Supp. 1452, 1456 (N.D. Cal. 1994), *citing* 35 U.S.C. § 271(a). As demonstrated above, advertising does not constitute any of these offenses.

There is no disagreement among the circuits of the federal courts to which this Court need apply its power to resolve conflicts. Although the term "use" for purposes of patent infringement is undefined by statute, demonstrations by an alleged infringer making use of a patented product, which do not seek or result in sales of the product, do not constitute "use" under the patent infringement statute. Furthermore, if such a demonstration were to constitute patent infringement, the infringement would be the "sale" of the product, not its "use."

2. Even If Such A Conflict Existed, Which It Does Not, Patent Infringement Does Not Occur "In The Course Of" Advertising.

Numerous federal courts have addressed the issue of whether patent infringement occurs "in the course of" an insured's "advertising activities" for the purpose of determining the existence of coverage under general liability insurance policies. It is well settled that patent infringement, by definition, cannot occur in the course of advertising activities.

In 1965, the Seventh Circuit Court of Appeals held that the display of allegedly infringing irons in the alleged infringer's offices did not constitute an illegal "use" of the products. *Knapp-Monarch Co. v. Cass Co. Products Corp.*, 342 F.2d 622, 626 (7th Cir. 1965).

Similarly, the Second Circuit Court of Appeals, in a case in which the alleged infringer demonstrated his data-plotting device to government representatives of the Bureau of Ships, held that "mere advertising of a patented device is not itself an infringement." *Ling-Temco-Vought, Inc. v. Kollsman Instrument Corp.*, 372 F.2d 263, 269-270 (2nd Cir. 1967).

Another court has held that, although the alleged infringer apparently advertised for sale an infringing plow device, no sales were ever made. Accordingly, the court stated, "infringement involves either manufacture or use or sale and does not encompass advertising." *Merry Manufacturing Co. v. Burns Tool Company*, 206 F.Supp. 53, 62 (N.D. Ga. 1962), *aff'd*, 335 F.2d 239 (5th Cir. 1964).

More recently, the United States District Court for the Eastern District of Pennsylvania ruled on the applicability of advertising injury liability insurance to patent infringement. Noting that there must be a causal connection between the alleged injury and the insured's advertising activity, the court held that "[s]ince the gravamen of patent infringement is the unauthorized production, use or sale of a patented product and not its advertising, it could not arise out of or occur in the course of advertising activities." *Atlantic Mutual Ins. Co. v. Brotech Corp.*, 857 F.Supp. 423, 429 (E.D. Pa. 1994), *aff'd*, 60 F.3d 813 (3rd Cir. 1994). See also, *I.C.D. Industries, Inc. v. Federal Insurance Co.*, 879 F.Supp. 480, 485-486 (E.D. Pa. 1995).

The district courts and courts of appeal of the Ninth Circuit have, on numerous occasions, addressed the issue of whether patent infringement can occur in the course of advertising. In *National Union Fire Ins. Co. v. Siliconix Inc.*, 729 F.Supp. 77 (N.D. Cal. 1989), the court examined whether patent infringement, arguably covered by the enumerated offense of "piracy" of the advertising injury portion of the insurance policy, occurred in the course of advertising activities. The court noted that "the infringing act is the making, using, or selling of a patented invention, not the mere advertising of the invention." *Siliconix*, 729 F.Supp. at 80. Furthermore, the court cited *Ling-Temco-Vought* and *Merry Manufacturing Co.* for the proposition that "mere advertising, without more, cannot constitute actionable patent infringement." *Siliconix*, 729 F.Supp. at 79.

Similarly, *Iolab Corp. v. Seaboard Surety Co.*, 15 F.3d 1500, 1506 (9th Cir. 1994) [". . . patent infringement cannot reasonably be considered an act of piracy arising out

or committed in advertising"], *Everest & Jennings v. American Motorists Ins. Co.*, 23 F.3d 226, 229 (9th Cir. 1994) [facts alleging patent infringement "simply do not establish the necessary causal connection between the alleged infringement and E & J's advertising"], and *Intex Plastics Sales Co. v. United National Ins. Co.*, 23 F.3d 254, 256 (9th Cir. 1994) ["[b]ecause direct infringement involves a making, using, or selling of the patented invention, the infringement does not occur in the course of the insured's advertising activities"] all followed *Siliconix* in finding that patent infringement does not occur in the course of an insured's advertising activities. See also, *Microtec Research v. Nationwide Mutual Ins. Co.*, 40 F.3d 968, 971 (9th Cir. 1994); *Owens-Brockway Glass Container, Inc. v. International Ins. Co.*, 884 F.Supp. 363, 368 (E.D. Cal. 1995); *New Hampshire Ins. Co v. R.L. Chaides Constr. Co., Inc., supra*, 847 F.Supp. 1452, 1456, *citing Ling-Temco-Vought*, 372 F.2d 263.

In sum, therefore, there is clear, demonstrable agreement among the federal circuits that patent infringement cannot occur "in the course of" an insured's "advertising activities" for insurance coverage purposes. As such, the holding of the Ninth Circuit Court of Appeals in the present case that, "as a matter of law, patent infringement cannot occur in the course of an insured's advertising activities" (*Simply Fresh Fruit, Inc. v. Continental Ins. Co.*, 84 F.3d 1105, 1108 (9th Cir. 1996)), falls squarely within this well established rule.

3. Petitioner's Arguments Concerning Trade Dress Infringement And Allegations Of Violations Of The Lanham Act Are Irrelevant To This Action.

Petitioners argue that the Ninth Circuit's decision that there is no coverage for allegations of misappropriation of trade secrets is in direct contravention of prior supreme court and the mainstream trademark law as it applies to section 43(a) of the Lanham Act. However, because no allegations of violations of the Lanham Act are present in the underlying actions, petitioners arguments are irrelevant.[2]

California courts have consistently held that an insurer's duty to defend is not triggered by insured's creative far-fetched, speculative arguments. (*Bohannon v. Aetna Casualty and Surety Co.*, 166 Cal.App.3d 1172, 1177 (1985); *Walbrook Ins. Co. Ltd. v. Goshgarian and Goshgarian*, 726 F.Supp. 777, 780 (C.D. Cal. 1989).) For example, in *Hurley Construction Co. v. State Farm Fire & Casualty Co.*, 10 Cal.App.4th 533 (1992), the insured argued that coverage applied to an insurance fraud complaint filed against it since the action could potentially become one for property damage or bodily injury. In rejecting this speculative argument, the court reasoned:

> "The Fireman's Fund complaint, on its face, alleged no facts showing a potential for coverage. The extraneous 'facts' regarding potential liability *came from Hurley's counsel who speculated*

---

[2] Furthermore, the issue of coverage for allegations of misappropriation of trade secrets in this case is a matter of California law. For this additional reason, the petition should be denied.

> *about how Fireman's Fund might amend its complaint at some future date.* Hurley, however, misconstrued the concept of potential liability' as defined by the policy. 'We look to the nature and kind of risk covered by the policy as a limitation upon the duty to defend . . . ' (Citations.)"
>
> Our Supreme Court, anticipating imaginative counsel and the likelihood of artful drafting, has indicated that a third party is not the arbiter of the policy's coverage. (Citations.) A corollary to this rule is that the insured may not speculate about unpled third party claims to manufacture coverage." (10 Cal.App.4th at 538; emphasis added.)

Similarly, in *Olympic Club v. Those Interested Underwriters at Lloyds London*, 991 F.2d 497 (9th Cir. 1993), the plaintiff had restricted its membership which resulted in a lawsuit being filed against it by the City of San Francisco for injunctive and declaratory relief. The club tendered its defense of these actions to its directors and officers' liability carrier, which denied the claim. Since the lawsuits did not allege wrongful acts of directors or officers, and because the policy only applied to such liability, the court held that coverage did not exist. In response to the Club's argument that the city could easily amend its complaint to allege wrongful acts by officers and directors, the court held that "mere speculation that the City will allege new facts in its suit against the Club cannot satisfy the Club's burden of proof in this case. (Citations.)" *Id.* at 503.

Likewise, in *Lassen Canyon Nursery v. Royal Ins. Co. of America*, 720 F.2d 1016, 1018 (9th Cir. 1983), the court held

that there was no duty to defend the insured in an antitrust action under a policy insuring against "property damage" where both the underlying complaint and discovery indicated the underlying plaintiff sought purely economic losses which were not covered under the policy. The court found that the facts before it were not sufficient to conclude that there was a potential claim for the diminution in the value of fixed assets, even though the insured's counsel argued that such losses could be recovered in an antitrust action.

Finally, in *National Union Fire Ins. Co. v. Siliconix, Inc.*, 726 F.Supp. 264 (N.D. Cal. 1989), the court found that neither the underlying complaints nor the insured's declarations indicated that potentially covered claims would be adjudicated in the underlying patent action. The court held that:

> [A]lthough Siliconix's counsel in the patent suit may assert that potentially covered claims are suggested by the damages asserted in [the] complaint, his self-serving legal opinion hardly constitutes a "fact" known to National Union which, under *Gray*, gives rise to a duty to defend.
>
> . . . The mere possibility that [the plaintiff] might assert claims against Siliconix which are covered by Siliconix' insurance policies, at least where such a possibility is extremely remote and not suggested by either the complaint in the underlying action not by facts known to the insurer and the insured, is not a sufficient ground upon which to deny National Union's motion for summary judgment. (726 F.Supp. at 272.)

In addition, the court noted that since the trial of the underlying patent action was to have begun in less than a week, the underlying plaintiff was unlikely to amend its complaint to include covered claims.

Here, based on the allegations in the underlying complaints, it is apparent that petitioner's arguments for coverage are premised on the type of far-fetched and speculative arguments which California courts have consistently held are insufficient to create a duty to defend. There are no causes of action for trade dress or trademark infringement in the underlying complaints. Further, petitioners have presented no evidence tending to show that such underlying complaints could have been amended to assert such causes of action. Rather, petitioners were allegedly liable for misappropriation of trade secrets, for which California courts have consistently held that no coverage is provided.

4. The Decision Of The Ninth Circuit Does Not Conflict With State Or Federal Decisions Or Statutory Law In Holding That Misappropriation Of Trade Secrets Is Not Covered Under A Liability Insurance Policy.

In *Bank of the West v. Superior Court, supra,* 2 Cal.4th 1254, the California Supreme Court held that in order to satisfy the "in the course of" requirement, the alleged injury must have a causal connection with the insured's advertising activities. Further, in *Dogloo v. Northern Ins. Co. of New York,* 907 F.Supp. 1383 (C.D. Cal. 1995), the court stated that in order for advertising injury coverage to apply, the "advertising itself" must have actually

caused the injury.[3] (See also, *Iolab Corp. v. Seaboard Surety Co.* 15 F.3d 1500 (9th Cir. 1994); *Everest & Jennings, Inc. v. American Motorist Ins. Co.* 23 F.3d 226, 229 (9th Cir. 1994))[4]

---

[3] Although the *Dogloo* court did find a duty to defend a case in which misappropriation of trade secrets was alleged, the court's decision that such a duty existed was based on the fact that the insured was allegedly liable for unfair competition under the Lanham Act. Thus, the *Dogloo* decision does not conflict with other cases construing California law which hold that there is no coverage for misappropriation of trade secrets.

[4] Although not decided under California law, several out-of-state cases have cited California decisions in holding that no coverage exists for allegations of trade secrets. Following the reasoning of *Bank of the West*, in the recent Minnesota case of *Polaris Industries, L.P. v. Continental Ins. Co.*, 539 N.W.2d 619, 621-22 (Minn. App. 1995), *rev. denied*, (1996) the insured sought coverage for allegations that it misappropriated trade secrets after it publicly announced that it had developed and produced the first electronic fuel-injected snowmobiles. The court observed that the advertising must directly or proximately cause the injury, not merely result from some other activities that were coincidentally advertised. Thus, the court held that the advertisement of previously misappropriated information, by itself, does not trigger advertising injury coverage.

The Supreme Court of Vermont also followed *Bank of the West* in *Select Design, LTD. v. Union Mutual Fire Ins. Co.*, 674 A.2d 798 (Vt. 1996), by requiring a causal nexus in a claim of misappropriation of trade secrets. The insured was sued because it hired an ex-employee of the plaintiff who had allegedly misappropriated proprietary information such as a customer list, existing orders and other customer information. However, the court found no coverage existed because the only relationship between the injury and advertising was that the ex-employee had to somehow contact plaintiffs' customers in order to steal them from the insured. The court found that this contact did not constitute advertising and thus, there was no causal relationship between the injury and advertising.

In *Microtec Research, Inc. v. Nationwide Mutual Ins. Co.* 40 F.3d 968 (9th Cir. 1994), the insured stole a competitor's computer compiler code and passed it off as its own in advertisements. The competitor sued Microtec for misappropriation of trade secrets, but carefully and conspicuously avoided suing for damages arising out the advertisements. The trial court determined on summary judgement that the insurer had no duty to defend the competitor's suit. The Ninth Circuit relied on *Bank of the West* and affirmed, finding no advertising injury coverage because the alleged misappropriation of the stolen code did not occur "in the course of" advertisements. The court noted that Microtec did not use the code in advertising activities in the same way that one might use a copyrighted piece of music. Rather, the court noted, the misappropriation caused the harm, not the advertisement. (*Id.* at 971.)

The few recent cases finding coverage for misappropriation of trade secrets have done so by ignoring or misapplying the "in the course of" advertising requirement.[5] For example, in *Sentex Systems, Inc. v. Hartford Accident & Indemnity Co.*, 882 F.Supp. 930 (C.D. Cal. 1995), *aff'd*, 93 F.3d 578 (9th Cir. 1996), an insured employed a former employee of a competitor in violation of a non-competition agreement and allegedly used confidential trade secrets to promote and advertise its products and

---

[5] *See e.g., Rymal v. Woodcock*, 896 F.Supp. 637 (W.D. La. 1995) (holding, without considering the causation issue, that the insurer had a duty to defend a claim for misappropriation of trade secrets under an advertising injury endorsement because the policy ambiguously defined "advertising injury". However, this case was decided under Louisiana and not California law.)

solicit business from the competitor's customers. Sentex moved for summary judgement on its carrier's duty to defend under the advertising injury coverage. The district court held that advertising need not be the only cause of the injuries and that the insured need not prove causation at the duty to defend stage. *Id.* at 945. The court stated that in determining whether a causal connection exists, courts apply the "potential for liability" standard, which requires only that the cause of action arguably fall within the scope of coverage to create a duty to defend. The district court's decision in *Sentex* appears to have completely ignored the "causal connection" requirement.

The Ninth Circuit affirmed the district court's judgment based solely on the fact that the allegations of misappropriation of trade secrets at issue in *Sentex* could constitute a "misappropriation of advertising ideas". The court specifically stated that it was affirming on "narrower grounds" than those relied upon by the district court. Further, the court noted that the issue of whether the alleged advertising injury occurred "in the course of" advertising was not challenged on appeal. For this reason, the *Sentex* decision provides no controlling authority for the "in the course of" analysis. Further, contrary to petitioner's arguments, because the *Sentex* decision did not discuss the "in the course of" requirement, that decision does not contradict the Ninth Circuit's prior holding in *Simply Fresh*, which was based on a finding that misappropriation of trade secrets does not occur "in the course of" advertising.

Thus, there is no duty to defend allegations of misappropriation of trade secrets under the Continental policies. Such allegations of misappropriation do not concern

an offense occurring "in the course of" advertising. The Ninth Circuit held that it was the misappropriation of Reddi-Made's technology that caused Reddi-Made's alleged injuries, rather than any advertising activities conducted by petitioners. Petitioners can point to no relevant cases or statutes holding to the contrary.

Finally, this is an issue involving California law. Even if the Ninth Circuit's holding conflicted with decisions from other jurisdictions, such decisions would not be binding on California courts in determining whether coverage exists for misappropriation of trade secrets. For this additional reason, the petition should be denied.

CONCLUSION

For the foregoing reasons, the petition for writ of certiorari should be denied.

Dated: October 7, 1996

Respectfully submitted,

McCormick, Barstow, Sheppard, Wayte & Carruth LLP

James H. Wilkins
Attorneys for Respondent, Continental Insurance Company